



HOW A STATE EARNED INCOME TAX CREDIT CAN HELP UTAH'S WORKING FAMILIES

[The Earned Income Tax Credit is] the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.

President Ronald Reagan¹

Economic trends have made it harder for many families to make ends meet despite the presence of one or even two working parents. The prevalence of poverty among Utah's working families is striking. One hundred thousand Utahns live in families that are working, but poor, and an additional 350,000 live in families hovering just above the poverty line.²

A strong state tax system rewards work and provides economic opportunity for all its residents. Low-income families spend a disproportionately greater amount of their income on taxes than higher-income families.³ Families making

less than \$30,000 contribute more than 11% of their income to state and local taxes while those making over \$300,000 contribute 5.5% of their income.⁴ A state refundable Earned Income Tax Credit (EITC) would give workers a tax credit equal to a specified percentage of the federal EITC.

HOW DOES THE FEDERAL EARNED INCOME TAX CREDIT WORK?

Eligibility for the federal EITC is limited to low income families and individuals with earnings from work. The federal EITC is a credit against the federal income tax that is designed to offset some of the taxes lower income families pay, including payroll taxes.⁶ Because it is a refundable credit, a family does not lose the full benefit of the credit if its income tax liability is less than the amount of the credit. Rather, if the credit exceeds the family's income tax liability the balance of the credit is returned to the family in a refund check. This assures that low income working families benefit fully from the credit.⁷

The amount of credit available depends on family size and income. The credit varies with income in three

The goals of the Earned Income Tax Credit (EITC) are to make work pay, to help ensure that working parents do not have to raise their children in poverty, and to offset the total tax burden of low and moderate income working families.... The EITC is a non-bureaucratic way to reward work effort. There are no middlemen service providers, no long lines at government offices, and there is no need to take time off from work to apply for the credit.

President Clinton's Council of Economic Advisors⁵



ranges: (1) the phase-in range where EITC benefits increase with earnings; (2) a plateau where the maximum EITC amount remains constant; and (3) the phase-out range where benefits decline as earnings increase (Figure 1).

Most families claim their EITC when they file their federal income tax return. A small number of families choose to receive the credit throughout the year as a supplement to their paycheck through the advance payment option.

Figure 1

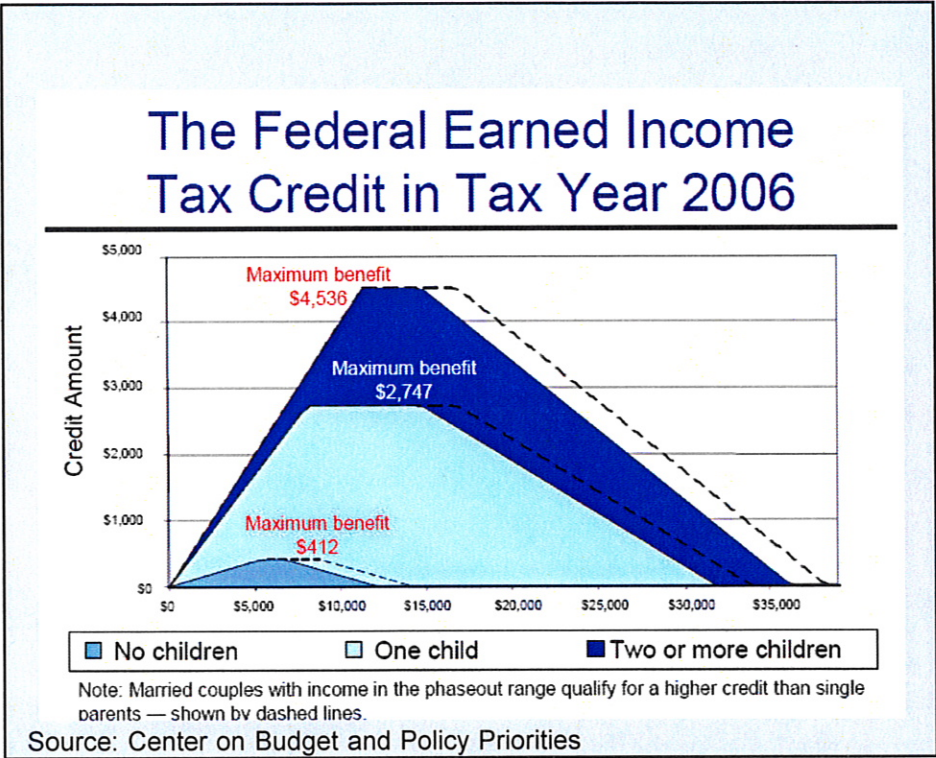


Table 1

2006 EITC Amounts for Utah Occupations

Occupation	Starting Salary	EITC*	Average Salary	EITC*
Fire Fighters	\$26,830	\$2,427	\$36,850	\$310
Police and Sheriff's Patrol Officers	\$29,952	\$1,763	\$38,896	\$0
Elementary School Teachers	\$28,280	\$2,121	\$39,890	\$0
Utah Highway Patrol Officers	\$30,285	\$1,700	\$36,500	\$384
Licensed Practical Nurses	\$26,280	\$2,543	\$33,730	\$974

*Assuming married with two or more children
 Source: Department of Workforce Services and IRS



WHO BENEFITS FROM THE FEDERAL EITC

Working families

- In 2003, 134,467 Utah families (14%) receive an average federal EITC of \$1,711.41.⁹
- Firefighters, highway patrol officers, police and sheriff's officers and elementary school teachers would all benefit from the EITC. (Table 1)

"Census data show that the EITC lifts more children out of poverty than any other single program or category of programs."

Robert Greenstein⁸

Businesses

- The federal EITC brought \$230 million into Utah's economy.¹⁰
- Studies have shown that EITC recipients spend their added funds locally, supporting businesses in their neighborhood and regionally.¹¹
- The EITC serves as a wage supplement, helping business find labor at affordable rates while workers earn enough to save, pay for housing, and plan for the future. In short, the EITC is a wage supplement that makes work pay.

Rural areas and small towns

- Most beneficiaries are in large cities, but rural areas and small towns have a disproportionate number of recipients compared to their population (Figure 2).

Figure 2

Percent of Total Filers and EITC filers that Live in Different Types of Communities

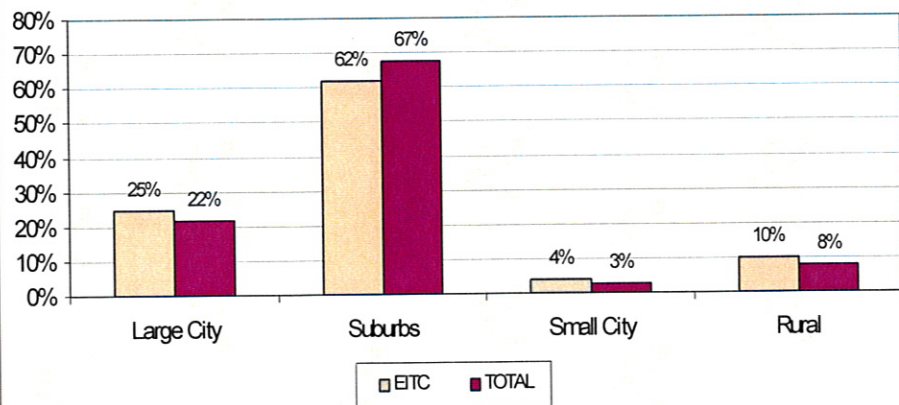
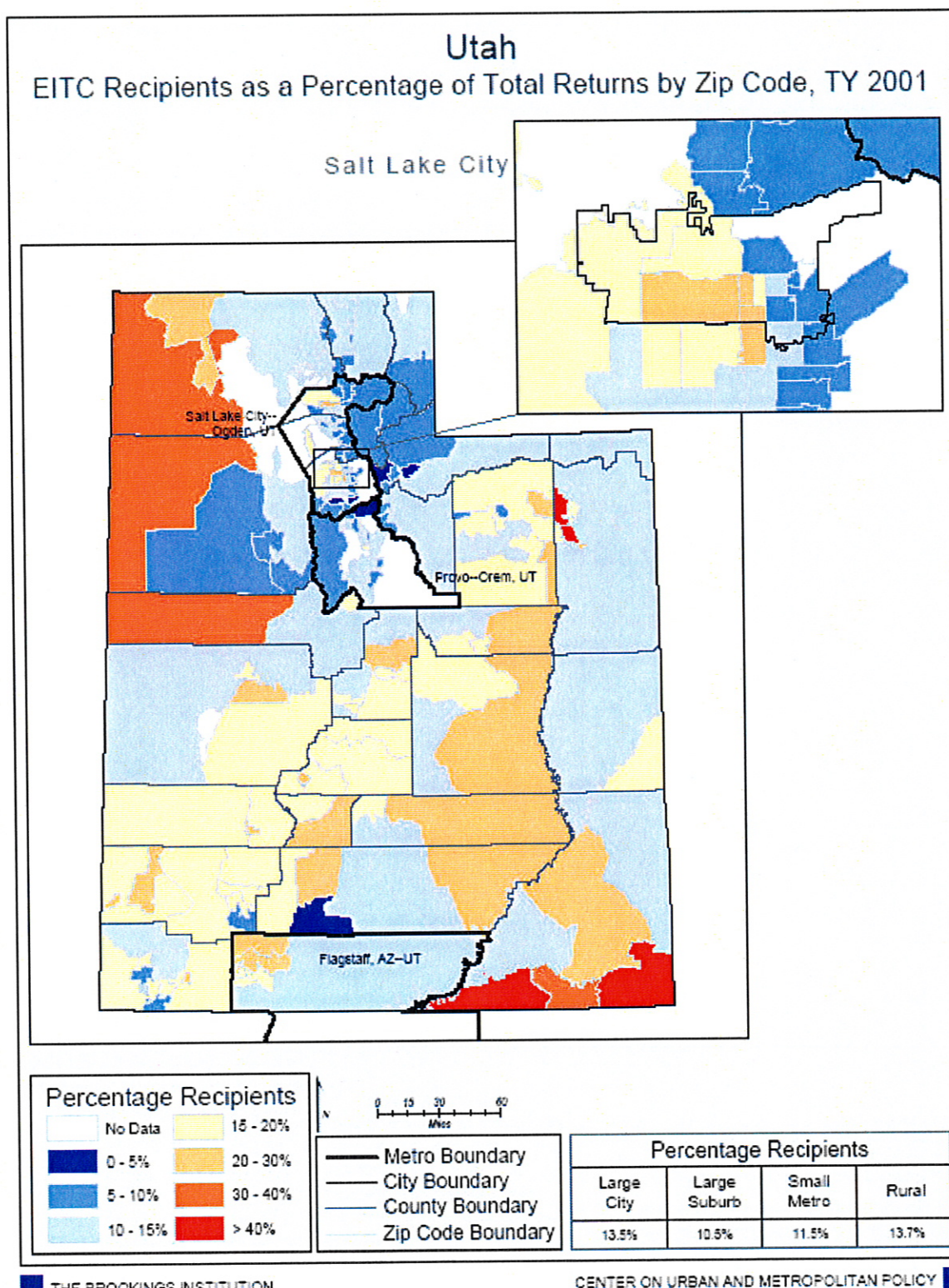




Figure 3



Source: IRS data, compiled by the Brookings Institution's Center on Urban and Metropolitan Policy and author's calculations



BENEFITS FROM THE FEDERAL EITC THROUGHOUT UTAH

Families throughout the state of Utah utilize the federal EITC. Figure 3 (on page 4) maps the percent of EITC recipients throughout Utah. Because incomes vary by geographic location, several areas have very high rates of utilization.

Table 2 shows how many federal income tax filers in each county receive the EITC, the amount of federal dollars the EITC brings to the county, the percent of the county's filers that receive the EITC and the average amount. Benefits by House and Senate Legislative District are available in the appendix (pages 9-11).

Table 2
EITC Data by County, 2003

County	Returns in County	EITC Recipients in County	Federal EITC Dollars for County	Percent of County's Filers Receiving EITC	Average EITC Amount
Beaver	2,248	445	\$795,261	19.80%	\$1,787.10
Box Elder	17,810	2454	\$4,212,000	13.78%	\$1,716.38
Cache	36,180	5445	\$9,018,619	15.05%	\$1,656.31
Carbon	7,822	1372	\$2,295,526	17.54%	\$1,673.12
Daggett	341	52	\$74,245	15.25%	\$1,427.79
Davis	104,386	11959	\$20,154,016	11.46%	\$1,685.26
Duchesne	5,976	1295	\$2,285,916	21.67%	\$1,765.19
Emery	3,880	622	\$1,120,167	16.03%	\$1,800.91
Garfield	1,854	359	\$562,199	19.36%	\$1,566.01
Grand	3,917	837	\$1,338,870	21.37%	\$1,599.61
Iron	13,230	2585	\$4,728,012	19.54%	\$1,829.02
Juab	3,063	557	\$990,568	18.18%	\$1,778.40
Kane	2,443	402	\$622,511	16.46%	\$1,548.53
Millard	4,361	718	\$1,253,468	16.46%	\$1,745.78
Morgan	3,217	256	\$403,574	7.96%	\$1,576.46
Piute	497	117	\$186,783	23.54%	\$1,596.44
Rich	775	108	\$170,940	13.94%	\$1,582.78
Salt Lake	386,244	52908	\$88,439,090	13.70%	\$1,671.56
San Juan	3,502	983	\$2,004,849	28.07%	\$2,039.52
Sanpete	7,620	1642	\$3,083,750	21.55%	\$1,878.05
Sevier	6,978	1380	\$2,449,572	19.78%	\$1,775.05
Summit	15,528	1179	\$1,572,779	7.59%	\$1,333.99
Tooele	17,885	2710	\$4,731,591	15.15%	\$1,745.97
Uintah	9,468	1861	\$3,298,894	19.66%	\$1,772.65
Utah	143,145	21424	\$37,731,010	14.97%	\$1,761.16
Wasatch	6,880	947	\$1,644,473	13.76%	\$1,736.51
Washington	41,188	6881	\$12,895,787	16.71%	\$1,874.12
Wayne	942	203	\$380,491	21.55%	\$1,874.34
Weber	86,947	12766	\$21,682,948	14.68%	\$1,698.49
State Total	938,327	134,467	230,127,909	14.33%	\$1,711.41

Source: IRS data, compiled by the Brookings Institution's Center on Urban and Metropolitan Policy

**Table 3**

County	Returns in County	EITC Recipients in County
Salt Lake	386,244	52,908
Utah	143,145	21,424
Weber	86,947	12,766
Davis	104,386	11,959
Washington	41,188	6,881
Cache	36,180	5,445
Tooele	17,885	2,710
Iron	13,230	2,585
Box Elder	17,810	2,454
Uintah	9,468	1,861

Table 4

County	Percent of County's Filers Receiving EITC	Average EITC Amount
San Juan	28.07%	\$2,039.52
Piute	23.54%	\$1,596.44
Duchesne	21.67%	\$1,765.19
Wayne	21.55%	\$1,874.34
Sanpete	21.55%	\$1,878.05
Grand	21.37%	\$1,599.61
Beaver	19.80%	\$1,787.10
Sevier	19.78%	\$1,775.05
Uintah	19.66%	\$1,772.65
Iron	19.54%	\$1,829.02

Table 3 shows the 10 counties with the most EITC recipients. Table 4 shows the 10 counties with the highest percent of the county's filers receiving an EITC.

How Would A STATE EARNED INCOME TAX CREDIT WORK?

Twenty other states have implemented a state EITC. Most state EITCs are patterned after the federal credit (see appendix page 12 for details). By linking state eligibility rules to those of the federal credit, Utah can take advantage of federal compliance efforts and coordinated efforts to publicize the availability of the credit so that families receive the benefits for which they are eligible. Refundability is a key feature of the EITC. Refundable tax credits are paid to families regardless of whether or not they owe income tax. The EITC is first used to reduce a family's tax liability, with any remainder returned to the family in the form of a refund. While lower income Utah families have no income tax liability, they do pay payroll, sales, and excise taxes. In fact, the poorest 40 percent of Utah families pay a greater share of their income in the form of Utah state and local taxes than do any other income group.

WHAT WOULD A STATE EITC MEAN FOR UTAH FAMILIES?

A state EITC would work in tandem with the federal credit to boost the earnings that low income families receive from work. The income of a family of four supported by a full-time worker earning \$7.50/hour still falls below the poverty level. The same family would be raised out of poverty by the combination of a state and federal EITC (Table 5), the equivalent of a pay increase of over \$2.00 per hour.



Table 5
How Would a State EITC Help a Family Supported by a Low-Wage Earner

	Gross Earnings	Percent of 2006 Poverty Guideline	2006 Federal EITC	State EITC Equal to 10% of Federal Credit	Total	Percent of 2006 Poverty Guideline	Equivalent Per Hour Raise
Family of Four Supported by:							
One full-time minimum wage worker	\$10,712	53.56%	\$4,290.00	\$429.00	\$15,431.00	77.16%	\$2.27
Two full-time minimum wage workers	\$21,424	107.12%	\$3,564.00	\$356.40	\$25,344.40	126.72%	\$1.88
One full-time worker earning \$7.50/hour	\$15,600	78.00%	\$4,536.00	\$453.60	\$20,589.60	102.95%	\$2.40
One full-time worker earning \$10/hour	\$20,800	104.00%	\$3,690.00	\$369.00	\$24,859.00	124.30%	\$1.95

Source: Health and Human Services Poverty Guideline, IRS and Author's Calculations

How Do Families Use Their EITC?

Families can use their EITCs to make investments that may over the long term reduce their dependence on government benefits. In 1996, a team of researchers from Syracuse University and the Center for Law and Human Services surveyed close to 1,000 EITC recipients. Over half of those surveyed spent some or all their EITC refunds on financial investments or human capital investments, including paying for tuition or other education expenses, increasing access to jobs through car repairs and other transportation improvements, moving to a new neighborhood, or putting money in a savings account.¹² 2005 research conducted in the Cleveland area found that half of EITC filers would use the funds to pay bills, and one-fifth would dedicate the funds for savings, clothing or furniture purchases or to pay for housing.¹³ Both groups of researchers found that many families save at least a portion of their credit for major investments or emergencies.



CONCLUSION

A state EITC would help Utah's working poor move toward self-sufficiency and allow working families to keep more of their hard earned dollars. Research findings suggest that the EITC can play a powerful role in helping families leave welfare for work and build assets or savings that can boost their long-term economic well-being. As one component of a comprehensive anti-poverty strategy, a state EITC provides a means to successfully boost the income of thousands of Utah workers who are struggling to make ends meet by building on a federal program that has a history of strong bipartisan support.

ENDNOTES

- ¹ "Sweeping Tax Overhaul Now the Law," *Chicago Tribune*, October 23, 1986.
- ² Poverty Despite Work Tables, 2004 American Community Survey Data compiled by the Center on Budget and Policy Priorities.
- ³ Ad Hoc Task Force on Tax Burden, *Report to Tax Review Commission*. 1999.
- ⁴ Institute on Taxation and Economic Policy. "Who Pays" 2002.
- ⁵ Report of President Clinton's Council of Economic Advisors, December 1998.
- ⁶ Use of the term "EITC" hereafter in this paper presumes a *refundable* EITC unless otherwise specified. The federal earned income tax credit is occasionally also referred to as an EIC – earned income credit.
- ⁷ By contrast, a non-refundable credit provides no assistance for those whose incomes are too low to owe state income taxes.
- ⁸ Robert Greenstein "The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor" Center on Budget and Policy Priorities, August 17, 2005.
- ⁹ IRS data, compiled by the Brookings Institution's Center on Urban and Metropolitan Policy.
- ¹⁰ IRS data, compiled by the Brookings Institution's Center on Urban and Metropolitan Policy.
- ¹¹ See, for example, Andrew Bernat and Thomas Johnson, "Distributional Effects of Household Linkages," *American Journal of Agricultural Economics*, 73(2) May 1991.
- ¹² Timothy M. Smeeding, Katherin E. Ross, and Michael O'Connor, "The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility," *National Tax Journal*, December 2000.
- ¹³ David Rothstein, Who Takes Credit? Earned Income Tax Credit Recipients in Cleveland., Policy Matters Ohio, November 2005.

APPENDIX



Federal EITC Utilization By Senate District					
Senate District	Total Returns	EITC Returns	EITC Amount	Average EITC Amount	Percent of Returns with EITC
1	34,953	7,834	\$14,490,587.75	\$1,849.79	22.41%
2	34,094	5,395	\$7,938,595.91	\$1,471.46	15.82%
3	36,951	5,330	\$8,635,795.21	\$1,620.18	14.43%
4	30,719	3,027	\$4,645,274.12	\$1,534.62	9.85%
5	30,615	5,494	\$9,615,501.46	\$1,750.12	17.95%
6	33,270	4,977	\$8,660,756.60	\$1,739.99	14.96%
7	34,645	3,146	\$4,383,368.47	\$1,393.24	9.08%
8	36,645	4,369	\$7,150,663.16	\$1,636.62	11.92%
9	28,719	2,330	\$3,671,600.00	\$1,575.65	8.11%
10	32,353	3,336	\$5,725,650.90	\$1,716.37	10.31%
11	36,339	3,604	\$6,303,273.77	\$1,748.97	9.92%
12	29,140	5,559	\$9,938,275.06	\$1,787.79	19.08%
13	37,831	6,067	\$10,866,400.76	\$1,791.03	16.04%
14	30,525	4,169	\$7,649,579.07	\$1,834.68	13.66%
15	30,991	4,893	\$8,557,036.91	\$1,748.77	15.79%
16	25,507	4,007	\$6,498,067.79	\$1,621.59	15.71%
17	34,780	4,974	\$8,449,623.66	\$1,698.73	14.30%
18	32,388	5,080	\$8,671,098.21	\$1,706.94	15.68%
19	34,099	4,211	\$7,189,706.46	\$1,707.49	12.35%
20	33,390	5,026	\$8,459,149.62	\$1,683.08	15.05%
21	30,625	4,422	\$7,698,184.10	\$1,740.80	14.44%
22	34,114	3,317	\$5,529,702.62	\$1,667.07	9.72%
23	33,845	3,373	\$5,439,312.98	\$1,612.55	9.97%
24	25,750	4,941	\$8,944,752.60	\$1,810.14	19.19%
25	30,361	4,557	\$7,576,040.92	\$1,662.59	15.01%
26	34,163	4,861	\$8,105,054.14	\$1,667.33	14.23%
27	25,806	4,678	\$8,325,245.70	\$1,779.78	18.13%
28	30,528	6,015	\$11,144,965.71	\$1,852.99	19.70%
29	35,181	5,474	\$9,864,652.33	\$1,802.24	15.56%
Total	938,327	134,467	\$230,127,915.99	\$1,711.41	14.33%



Federal EITC Utilization by House District

House District	Total Returns	EITC Returns	EITC Amount	Average EITC Amount	Percent of Returns with EITC
1	11,831	1,756	\$3,088,132.14	\$1,758.46	14.84%
2	12,096	1,599	\$2,766,425.65	\$1,729.76	13.22%
3	13,478	1,972	\$3,337,700.80	\$1,692.55	14.63%
4	9,700	1,619	\$2,683,276.41	\$1,657.44	16.69%
5	11,858	1,718	\$2,777,511.39	\$1,616.92	14.49%
6	13,165	1,883	\$3,258,023.50	\$1,729.86	14.31%
7	12,910	1,610	\$2,801,572.67	\$1,740.41	12.47%
8	11,791	1,887	\$3,286,566.10	\$1,741.52	16.01%
9	12,488	2,422	\$4,155,270.72	\$1,715.61	19.40%
10	13,623	1,885	\$3,155,496.40	\$1,674.09	13.84%
11	11,422	1,682	\$2,889,341.64	\$1,717.53	14.73%
12	13,485	1,861	\$2,983,692.50	\$1,603.13	13.80%
13	15,572	2,188	\$3,824,944.99	\$1,748.19	14.05%
14	10,950	1,681	\$2,933,647.67	\$1,744.84	15.36%
15	15,191	2,087	\$3,556,896.58	\$1,704.24	13.74%
16	11,423	953	\$1,564,526.24	\$1,642.46	8.34%
17	13,772	1,087	\$1,791,409.47	\$1,648.52	7.89%
18	12,786	1,091	\$1,715,925.47	\$1,572.09	8.54%
19	13,335	1,383	\$2,252,438.10	\$1,628.69	10.37%
20	14,128	2,067	\$3,654,703.03	\$1,767.91	14.63%
21	13,213	1,967	\$3,341,972.00	\$1,698.98	14.89%
22	11,704	2,330	\$4,150,393.19	\$1,781.27	19.91%
23	11,706	2,498	\$4,457,914.55	\$1,784.85	21.34%
24	16,598	1,999	\$2,507,243.71	\$1,254.08	12.05%
25	14,303	1,206	\$1,421,869.51	\$1,179.33	8.43%
26	10,700	2,722	\$5,129,537.57	\$1,884.47	25.44%
27	14,165	1,649	\$3,002,476.47	\$1,821.06	11.64%
28	11,679	883	\$1,283,043.36	\$1,452.36	7.56%
29	13,803	2,550	\$4,569,659.35	\$1,791.90	18.48%
30	12,321	1,809	\$2,705,339.19	\$1,495.16	14.69%
31	13,560	2,421	\$4,098,239.12	\$1,692.73	17.85%
32	9,977	1,899	\$3,409,882.90	\$1,795.17	19.04%
33	12,242	2,260	\$3,950,171.08	\$1,747.73	18.46%
34	11,567	2,106	\$3,684,898.43	\$1,749.87	18.20%
35	12,536	2,096	\$3,439,650.49	\$1,641.06	16.72%
36	13,057	1,077	\$1,562,687.08	\$1,450.75	8.25%
37	14,806	1,434	\$2,203,385.10	\$1,536.01	9.69%
38	7,740	1,285	\$2,246,722.30	\$1,747.79	16.61%



Federal EITC Utilization by House District <i>cont.</i>					
House District	Total Returns	EITC Returns	EITC Amount	Average EITC Amount	Percent of Returns with EITC
39	14,430	2,509	\$4,379,832.92	\$1,745.97	17.38%
40	13,061	1,447	\$2,258,946.54	\$1,560.72	11.08%
41	13,636	1,619	\$2,724,245.30	\$1,682.92	11.87%
42	19,758	2,693	\$4,687,705.92	\$1,740.79	13.63%
43	9,911	1,455	\$2,533,250.81	\$1,740.56	14.68%
44	12,539	1,912	\$3,093,781.92	\$1,618.27	15.25%
45	15,842	2,036	\$3,373,633.91	\$1,656.93	12.85%
46	13,136	1,103	\$1,666,384.29	\$1,510.36	8.40%
47	9,496	1,289	\$2,196,728.74	\$1,703.76	13.58%
48	12,405	1,009	\$1,612,431.04	\$1,597.99	8.13%
49	12,673	913	\$1,355,714.80	\$1,484.17	7.21%
50	13,770	1,051	\$1,812,639.86	\$1,724.93	7.63%
51	13,212	1,117	\$1,846,750.64	\$1,654.05	8.45%
52	14,861	1,392	\$2,398,314.61	\$1,723.23	9.37%
53	14,468	1,358	\$1,960,680.79	\$1,443.48	9.39%
54	12,211	2,141	\$3,772,564.00	\$1,761.76	17.54%
55	13,237	2,668	\$4,589,911.00	\$1,720.09	20.16%
56	14,971	2,114	\$3,878,606.70	\$1,834.77	14.12%
57	11,788	1,627	\$3,003,813.80	\$1,846.72	13.80%
58	7,996	1,091	\$1,992,335.97	\$1,825.91	13.65%
59	14,482	2,269	\$4,038,928.37	\$1,780.44	15.66%
60	10,952	1,666	\$2,888,173.55	\$1,733.60	15.21%
61	8,753	1,591	\$2,773,419.06	\$1,743.18	18.18%
62	10,815	1,510	\$2,351,780.79	\$1,557.98	13.96%
63	7,422	1,150	\$1,829,807.81	\$1,590.88	15.50%
64	11,243	2,108	\$3,689,758.15	\$1,750.32	18.75%
65	11,367	1,670	\$2,962,657.41	\$1,774.46	14.69%
66	12,180	1,778	\$3,157,743.96	\$1,776.12	14.60%
67	12,988	2,257	\$3,978,515.75	\$1,763.02	17.37%
68	10,240	2,004	\$3,694,418.40	\$1,843.73	19.57%
69	9,977	2,185	\$4,076,599.68	\$1,865.38	21.91%
70	10,361	1,836	\$3,229,451.84	\$1,759.33	17.72%
71	14,023	2,342	\$4,230,299.80	\$1,805.97	16.70%
72	11,637	2,270	\$4,171,461.40	\$1,837.63	19.51%
73	11,215	2,520	\$4,829,463.33	\$1,916.68	22.47%
74	14,689	2,098	\$3,738,841.03	\$1,782.07	14.28%
75	11,902	2,045	\$3,705,733.99	\$1,812.36	17.18%
Total	938,327	134,467	\$230,127,914.74	\$1,711.41	14.33%



State Earned Income Tax Credits Based on the Federal EITC

State	Percentage of Federal Credit (Tax Year 2006 Except as Noted)	Refundable	Workers w/o Children Eligible?
Delaware	20%	No	Yes
District of Columbia	35%	Yes	Yes
Indiana ^a	6%	Yes	Yes
Illinois	5%	Yes	Yes
Iowa	6.5%	No	Yes
Kansas	15%	Yes	Yes
Maine	5%	No	Yes
Maryland ^b	20%	Yes	No
Massachusetts	15%	Yes	Yes
Michigan	10% (effective in 2008; to 20% in 2009)	Yes	Yes
Minnesota ^c	Average 33%	Yes	Yes
Nebraska	8%	Yes	Yes
New Jersey ^d	20%	Yes	No
New York ^{e,f}	30%	Yes	Yes
Oklahoma	5%	Yes	Yes
Oregon	5% (to 6% in 2008)	Yes	Yes
Rhode Island	25%	Partially ^g	Yes
Vermont	32%	Yes	Yes
Virginia	20%	No	Yes
Wisconsin	4% — one child 14% — two children 43% — three children	4% — one child 14% — two children 43% — three children	No

Notes: From 1999 to 2001, Colorado offered a 10% refundable EITC financed from required rebates under the state's "TABOR" amendment. Those rebates, and hence the EITC, were suspended beginning in 2002 due to lack of funds and again in 2005 as a result of a voter-approved five-year suspension of TABOR. Under current law, the EITC is projected to resume in 2010.

a Presently scheduled to expire in TY 2011.

b Maryland also offers a non-refundable EITC set at 50 percent of the federal credit. Taxpayers in effect may claim either the refundable credit or the non-refundable credit, but not both.

c Minnesota's credit for families with children, unlike the other credits shown in this table, is not expressly structured as a percentage of the federal credit. Depending on income level, the credit for families with children may range from 25 percent to 45 percent of the federal credit; taxpayers without children may receive a 25 percent credit.

d The New Jersey credit is available only to families with incomes below \$20,000.

e The New York credit would be reduced automatically to the 1999 level of 20 percent should the federal government reduce New York's share of the TANF block grant.

f Beginning in 2006, New York also allows certain non-custodial parents who are making child support payments to claim an EITC that is the greater of 20 percent of the federal EITC that they would be eligible for with one qualifying child as a custodial parent or 250 percent of the federal EITC for taxpayers without qualifying children.

g Rhode Island made a very small portion of its EITC refundable effective in TY 2003. In 2006, the refundable portion was increased from 10 percent to 15 percent of the nonrefundable credit (i.e. 3.75 percent of the federal EITC).

Source: Center on Budget and Policy Priorities

VOICES FOR
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